

March 31, 2017

SNN Builders Private Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Term Loan	152.0	[ICRA]BBB+(Stable) / reaffirmed

*Instrument Details are provided in Annexure-1

Rating action

ICRA has reaffirmed the ratings assigned to the Rs 152-crore long-term bank facilities of SNN Builders Private Limited (SBPL) at **[ICRA]BBB+** (pronounced as ICRA triple B plus). The outlook on the long-term ratings is **‘Stable’**.

For arriving at the ratings, ICRA has taken a consolidated view of SBPL along with its group companies—SNN Properties LLP, SNN Homes LLP, SNN Spiritua Developers and Ibrox Real Estate Development Private Limited—since all the companies operate in the same line of business, have operational and financial linkages and share a common management.

Rationale

The rating reaffirmation continues to draw comfort from the strong track record of the promoters and the established position of SNN group in the Bangalore residential real estate market. The group has demonstrated good execution capability with completion of projects within reasonable time and quality. ICRA also positively factors in the steady construction progress in the ongoing projects of the group. The reasonable strength of the ‘SNN Raj’ brand, good location, moderate pricing and wide range of amenities have resulted in healthy sales responses to the ongoing projects during the launch phase. The rating also derives comfort from SNN group’s strategy to sell a reasonable share of its project inventory in the initial stages to provide cover for a large portion of the budgeted costs and the availability of undrawn credit limits.

However, the assigned rating is constrained by the sluggish sales velocity witnessed in all its projects in the current financial year. The sales during the months of November and December 2016 have especially been impacted by the demonetisation of high denomination currency notes. The rating also considers the geographic concentration risk arising from the group’s presence mainly in the micro-markets of South and South-East Bangalore. The group has high level of unsold inventory in certain large-sized ongoing projects such as SNN Raj Eternia, SNN Raj Greenbay and Clermont, leading to high market risk. Certain completed projects such as SNN Raj Serenity also have unsold inventory where sales progress has been sluggish in recent months. The funding risk for the group has been enhanced by the large-sized acquisition of the Clermont project in FY2017, the modest sales velocity in recent months and the intermediate stage of construction of large projects such as SNN Raj Eternia, SNN Raj Greenbay and Clermont. The Clermont project was acquired from Essar Group for a consideration of close to Rs 300 crore; this was funded through a mix of internal accruals and debt drawdown.

Going forward, the group’s ability to improve the sales velocity in the current and completed projects, to collect customer advances and execute the projects in a timely manner; and the extent of investments in land bank and funding pattern for the same would be the key rating sensitivities.

Key rating drivers

Credit strengths

- Established market position of the SNN Group with strong execution capability and track record of timely completion of projects
- Policy of phase-wise execution of projects, with healthy sales levels achieved during the launch phase
- Track record of low debt utilisation

Credit weaknesses

- High execution and market risk relating to large-sized ongoing projects
- Sluggish sales velocity in FY2017 across projects
- Moderately high leverage, which has increased after the acquisition of Clermont project
- Geographic concentration risk and general slowdown in the real estate industry in Bangalore

Description of key rating drivers:

SNN Group is an established player in the residential real estate market in Bangalore with a portfolio of more than 40 projects, covering a total saleable area of 9.3 million sft developed as on date. The group has five ongoing projects, which are being developed across five entities. The projects along with the entity under which they are being undertaken are 'SNN Raj Grandeur' (SNN Builders Private Limited) 'SNN Raj Eternia' (SNN Properties LLP), 'SNN Raj Greenbay' (SNN Homes LLP), 'SNN Raj Spiritua' (SNN Spiritua Developers), and 'Clermont' (Ibrox Real Estate Development Private Limited). SNN Builders Private Limited has also recently completed two projects, SNN Raj Serenity and SNN Raj Neeladri, where the group has some unsold inventory.

SNN Raj Grandeur and SNN Raj Spiritua are in advanced stages of completion and are expected to be completed in FY2018; the latter is a relatively high-end project with ticket size in excess of Rs 1 crore, which has resulted in weak sales velocity in FY2016 and FY2017. In 2014, the group launched SNN Raj Eternia and SNN Raj Greenbay, which are large-sized projects and were developed in a phase wise manner. These projects had witnessed healthy sales response at the time of the launch, resulting in healthy visibility of future cash flows to fund the construction costs and consequently the group has limited reliance on debt. In FY2017, the group acquired the Clermont project, a luxury development spread across 7.7 acres in Hebbal, from the Essar Group for a consideration of close to Rs 300 crore. The outflow for this acquisition has increased the leverage levels, thereby increasing the group's dependence on future sales to meet balance project development costs.

The sales velocity across the projects was moderate in FY2017, which can be attributed to the general slowdown in real estate demand in Bangalore, demonetisation impact as well as relatively higher ticket size in certain projects such as SNN Raj Spiritua and Clermont. The group has an unsold inventory of around 3.0 million sft across all the projects, exposing the group to a significant amount of market risk. Timely completion of projects and improvement in sales velocity would be the key rating sensitivity going forward

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of SBPL along with its group companies – SNN Properties LLP, SNN Homes LLP, SNN Spiritua Developers and Ibrox Real Estate Development Private Limited – since all the companies operate in the same line of business, have operational and financial linkages and share a common management.

Links to applicable criteria

[Rating Methodology for Real Estate Entities](#)
[Financial Consolidation and Rating Approach](#)



About the company:

SNN Builders Private Ltd (SBPL), incorporated in 2009, is involved in the real estate development with presence in the Bengaluru real estate market. SBPL is a part of the SNN Group, which has completed over 40 projects, covering 9.3 million sft of saleable area comprising largely of residential apartments. The company is currently engaged in the development of residential apartments named 'SNN Raj Serenity', 'SNN Raj Neeladri' and 'SNN Raj Grandeur' in Bengaluru. The company has completed the construction of 'SNN Raj Neeladri' project (103 residential apartments in 1 acre with JDA share of 64%) and made 88% of sales as on January 2017. The company has completed the construction of six blocks in 'SNN Raj Serenity'. The A, B, C and D blocks are fully sold out while sales in E and P blocks (714 residential apartments) are 70% as on January 2017. 'SNN Raj Grandeur' (308 residential apartments in 4.5 acre with JDA share of 66%) is 75% complete in terms of construction cost incurred, with 67% sales completed as on January 2017.

SNN group has a portfolio of seven projects (including two projects which have recently been completed) with three projects under SBPL and one project each under SNN Properties LLP, SNN Homes LLP, SNN Spiritua Developers and Ibrox Real Estate Development Private Limited.

In FY2016, SBPL reported a net profit of Rs 20.6 crore on an operating income of Rs 222.0 crore. In FY2015, SBPL reported a net loss of Rs 22.3 crore on an operating income of Rs 322.3 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the Past 3 Years	
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2015
				March 2017	May 2016	March 2015
1	Term Loan	Long Term	152.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan	-	-	Nov - 2017	57.0	[ICRA]BBB+ (Stable)
Unallocated	-	-	-	95.0	[ICRA]BBB+ (Stable)

Source: SNN Builders Private Limited

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